

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7423

BILL NUMBER: HB 1712

DATE PREPARED: Jan 10, 2001

BILL AMENDED:

SUBJECT: Utility Sales Tax Exemption.

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FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill exempts certain utility purchases by residential consumers from the state gross retail tax.

Effective Date: January 1, 2001 (retroactive).

Explanation of State Expenditures: The Department of State Revenue will experience additional administrative expenses to accommodate these changes in sales tax collections and to administer refunds to affected consumers who will pay the sales tax on residential utilities from January 1, 2001 until the bill is signed into law. The Department estimates that the administrative costs associated with informing consumers of their right to receive refunds and processing any refunds could cost between \$150,000 and \$200,000.

Explanation of State Revenues: This bill would eliminate the sales tax purchases of utilities proving heat, light, water, or power for residential consumption. Based on data from state and federal sources, it was estimated that a repeal of the sales tax on the utilities specified by this bill, would decrease state revenue by approximately **\$96 M in FY 2001, \$196 M in FY 2002, and \$203 M in FY 2003**. Since this bill is retroactive to January 1, 2001, sales taxes collected on the affected residential utilities after January 1, 2001 would be refunded to consumers (provided that a claim is filed with the Department of State Revenue).

The above estimate consists of estimated reductions in sales tax revenue from residential sales of electricity, natural gas, propane, home heating fuel, and water. The estimated revenue reductions attributable to these energy sources in FY 2002 (the first full year of impact) are as follows:

Electricity	\$ 111 M
Natural Gas	\$ 46 M
Water	\$ 24 M
Propane and Heating Oil	\$ 15 M
Total	<u>\$ 196 M</u>

Tax revenue from the sale of coal and wood for home heating was not included in this estimate because of data limitations and the limited number of households that purchases these products for home heating.

Gross Retail (Sales) and Use taxes are deposited in the State General Fund (59.03%), the Property Tax Replacement Fund (40%), the Public Mass Transportation Fund (0.76%), the Commuter Rail Service Fund (0.17%), and the Industrial Rail Service Loan Fund (0.04%).

The annual reductions to these funds for FY 2002 (the first full year of impact) are estimated to be:

State General Fund	\$ 115,698,800
Property Tax Replacement Fund	\$ 78,400,000
Public Mass Transit Fund	\$ 1,489,600
Industrial Rail Service Loan Fund	\$ 333,200
Commuter Rail Service Fund	<u>\$ 78,400</u>
Total	<u>\$ 196,000,000</u>

Background information (Energy Utilities): Future sales tax collections on the sale of fuel are dependent upon the price of the fuel and the quantity consumed by Indiana residents. The above estimates on electricity, natural gas, and propane and heating oil are based on the estimated residential fuel sales to Indiana consumers obtained from two distinct methods. The first used past expenditure data from the Bureau of Labor Statistics' *Consumer Expenditure Survey* to project households' future expenditures on home energy. The second method used current consumption data and price projections supplied by the U.S. Department of Energy, Energy Information Agency, to estimate future sales. It is important to note that fluctuations in the price of fuels directly influence the amount of sales tax collected.

Background information (Water): Future sales tax collections on water also will depend on its price and the quantity consumed. The estimate above used Department of State data to obtain the sales tax collections on all water purchases for FY 1998. The collections were assumed to grow at the same rate as the total Indiana sales tax, as reported in various editions of the *Revenue Forecast Update*. Since this bill only exempts the water sold to consumers, the total estimated sales tax was adjusted accordingly. Analysis from the United States Geological Survey, suggests that approximately 79% of the taxable water sold in Indiana is used by residential consumers.

Because of the nature of utility expenditures, the elimination of the sales tax on these residential utilities would be similar to increasing consumers' disposal incomes. People with higher incomes tend to purchase more goods. To the extent that more taxable items are purchased, the impact of the bill on the state's sales tax revenue may be partially mitigated.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: Tom Conley, Department of State Revenue, 232-2107; U.S. Bureau of Labor Statistics, *Consumer Expenditure Survey*; U.S. Census Bureau; U.S. Department of Energy, Energy Information Agency; *December 19, 2000, Revenue Forecast Update*; Department of Revenue Sales Tax Data CY 1998; U.S. Geological Survey, *1995 Estimated Water Use in the United States*.